

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 XMB-02

ERDA-05 /098 W

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R 102043Z JUN 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 5897

INFO AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: EFIN, EC

SUBJECT: GOE ANNOUNCES NEW CREDIT REGULATIONS

REF: QUITO 4032

1. THE GOE ANNOUNCED A SERIES OF MEASURES JUNE 3 TO IMPROVE THE DETERIORATING BALANCE OF PAYMENTS SITUATION AND AN AUSTERITY PROGRAM TO MINIMIZE THE SIZE OF THE CENTRAL GOVERNMENT DEFICIT. FINMIN MONCAYO ANNOUNCED THAT NECESSARY STEPS WOULD BE TAKEN TO CUT SPENDING BECAUSE OF THE DECLINE IN PETROLEUM EXPORTS AS WELL AS FALLING EXPORTS OF OTHER TRADITIONAL EXPORTS. (ONLY BANANA EXPORTS HAVE RISEN SLIGHTLY). MONCAYO DID NOT ANNOUNCE WHERE SPENDING CUTS WILL BE MADE.

2. OVERDUE MEASURES FOR IMPORT CONTROLS WERE ANNOUNCED THE SAME DAY. ALL CAR IMPORTS WERE PROHIBITED FOR THREE MONTHS, A SYMBOLIC GESTURE TO EMPHASIZE THE NECESSITY OF IMPORT RESTRAINT. (SEPTTEL 4032). IMPORT LEVELS CONTINUE TO EXCEED EXPORTS. FOREIGN RESERVES HAVE FALLEN

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DRASTICALLY SINCE THE BEGINNING OF THE YEAR. NET

FOREIGN RESERVES HAVE FALLEN TO \$226 MILLION FROM \$339 MILLION AT THE BEGINNING OF THE YEAR. THE GOE ANNOUNCED THAT BANK PORTFOLIO LIMITS WOULD BE FROZEN AT MAY 31 LEVELS. PREVIOUSLY, BANKS HAD BEEN ALLOWED TO EXPAND CREDIT AT THE RATE OF 1 1/2 PERCENT A MONTH. HOWEVER, CREDIT TOWARD QUOTE PRODUCTIVE UNQUOTE INDUSTRIES AND AGRICULTURE WAS EXEMPTED FROM THE DECREE AND BANKS MAY EXPAND CREDIT WITHOUT LIMIT TO INDUSTRIES SO CLASSIFIED UNDER THE INDUSTRIAL DEVELOPMENT LAW. (ON DECEMBER 21, 41 PERCENT OF TOTAL CREDIT WAS USED TO FINANCE TRADE. 25 PERCENT OF CREDIT GRANTED WENT TO AGRICULTURE, 19 PERCENT TO INDUSTRY, AND 14 PERCENT TO OTHER CATEGORIES.)

3. COMMENT: THE EFFECT OF THESE MEASURES IS YET UNKNOWN. THE INITIAL REACTIONS OF THE TWO AMERICAN BANKS ARE CONTRADICTORY. (CITIBANK HAS STOPPED LENDING PENDING THEIR ANALYSIS OF THE NEW DECREE.) THE GUAYAQUIL CHAMBER OF COMMERCE, ONE OF THE MORE OUTSPOKEN CRITICS OF GOVERNMENT ECONOMIC POLICIES, AND SPOKESMAN FOR THE COUNTRY'S IMPORTERS, COMMENTED AFTER THE DECREE THAT IMPORTERS ARE BEING SACRIFICED. THE CHAMBER OF COMMERCE IS NOW STUDYING THE NEW REGULATIONS. MANY OF THE INDUSTRIES CLASSIFIED AS QUOTE PRODUCTIVE UNQUOTE MUST IMPORT CAPITAL GOODS AND RAW MATERIALS. ALSO, MANY CORPORATIONS ARE NOT CLASSIFIED UNDER THE INDUSTRIAL DEVELOPMENT LAW AND WILL EXPERIENCE DELAYS IN CERTIFICATION. SOME LOANS WILL STILL BE MADE FOR FINANCING OF IMPORTS SINCE BANKS WERE NOT FULLY LOANED UP BY MAY 31. REMOVAL OF THE CREDIT CEILING WILL CAUSE SOME REDISTRIBUTION OF CREDIT TO PRODUCTIVE INDUSTRIES, AND THE INITIAL REACTION OF BANK OF AMERICA VICE-PRESIDENT, FOR ONE, IS THAT NEW MEASURES WILL PROVE BENEFICIAL FOR BANKS AND FOR THE COUNTRY.
HEMENWAY

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